



2. BUDGETING

New Hampshire employs six major processes in its current budgeting approach. They are:

- A operating budget development process;
- A capital budget development process;
- A budget reduction process;
- A budget transfer process;
- A process to authorize acceptance and spending of funds from outside sources; and
- A supplemental appropriation process.

Each of these processes is discussed individually.

Four administrative units manage budget processes. They are:

- The DAS Budget Office, which manages budgeting activities within the Executive Branch;
- The Legislative Budget Assistant, which manages budgeting activities for the Legislative Branch;
- The DAS Financial Data Management, which loads budget information into the current financial and human resources systems (IFS and GHRIS); and
- The DAS Bureau of Accounts, which enters modifications to budget data into the current financial system.

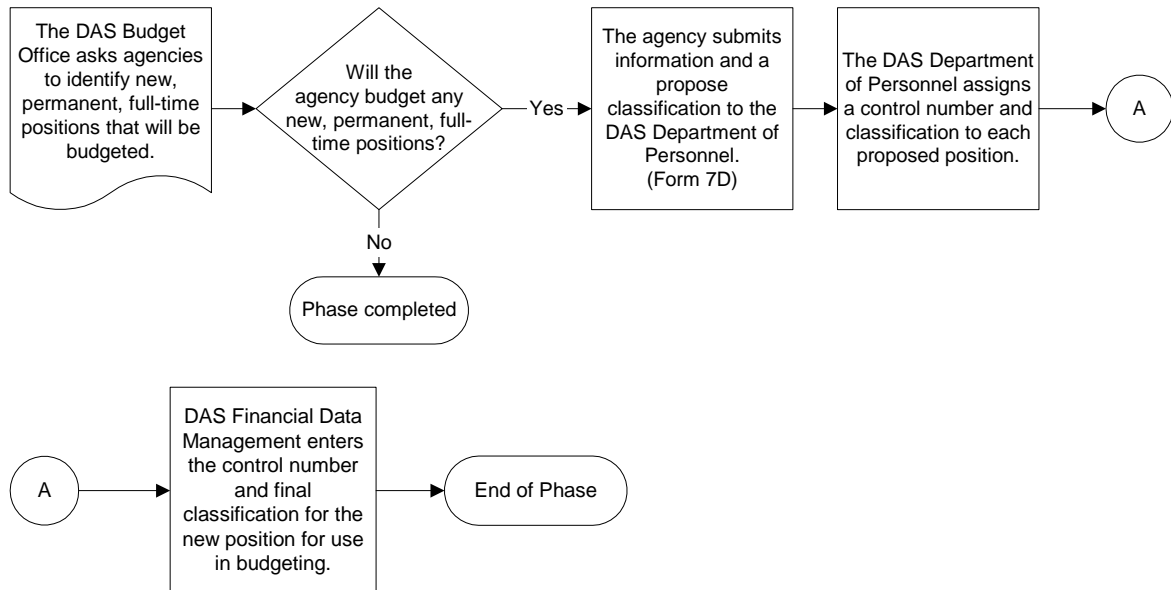
2.1 Operating Budget Development

New Hampshire develops a biennial budget in a process that has seven phases, beginning with personnel planning and culminating with implementation of the adopted budget.

2.1.1 *Personnel Planning*

Before the actual budget development process begins, agencies are asked to identify new, permanent, full-time positions likely to be proposed so that the Division of Personnel may classify them. This early identification serves to reduce complexity of budget development, but it is not required. Additional positions may also be introduced during other phases of development of the operating budget.

A flow diagram for the personnel planning aspect of budgeting follows.



2.1.1.1 Business Rules

Business rules related to personnel planning follow.

- The Division of Personnel must classify all proposed new, permanent, full-time positions before being incorporated into an agency budget.

2.1.1.2 Issues / Vision

Issues and vision related to personnel planning follow.

- The original personnel document used in budgeting contains dated information (up to two years old). Adjustments to move employees into the current budget location are manual. With integration of budgeting and other functionality, the first run should include current information.
- Positions should be identified in the budget by funding source. Further, users should have the option of entering funding source either as a percentage or as an amount.
- Budgets for positions in the Judicial Branch are at a summary level only. With other functionality available through an ERP, budgeting Judicial Branch positions at a detailed level should be considered.
- Part-time positions are not but should be controlled by position number. The new system should be capable of projecting Class 59 and part-time employee expenses in the same manner that GHRS projects Class 10 by position number.
- Ability to support split-funded positions is needed, including partial funding through grants and projects.
- Shift differential cause confusion. Currently, budgeting a shift differential looks like budgeting a separate position. A more intuitive mechanism is needed.

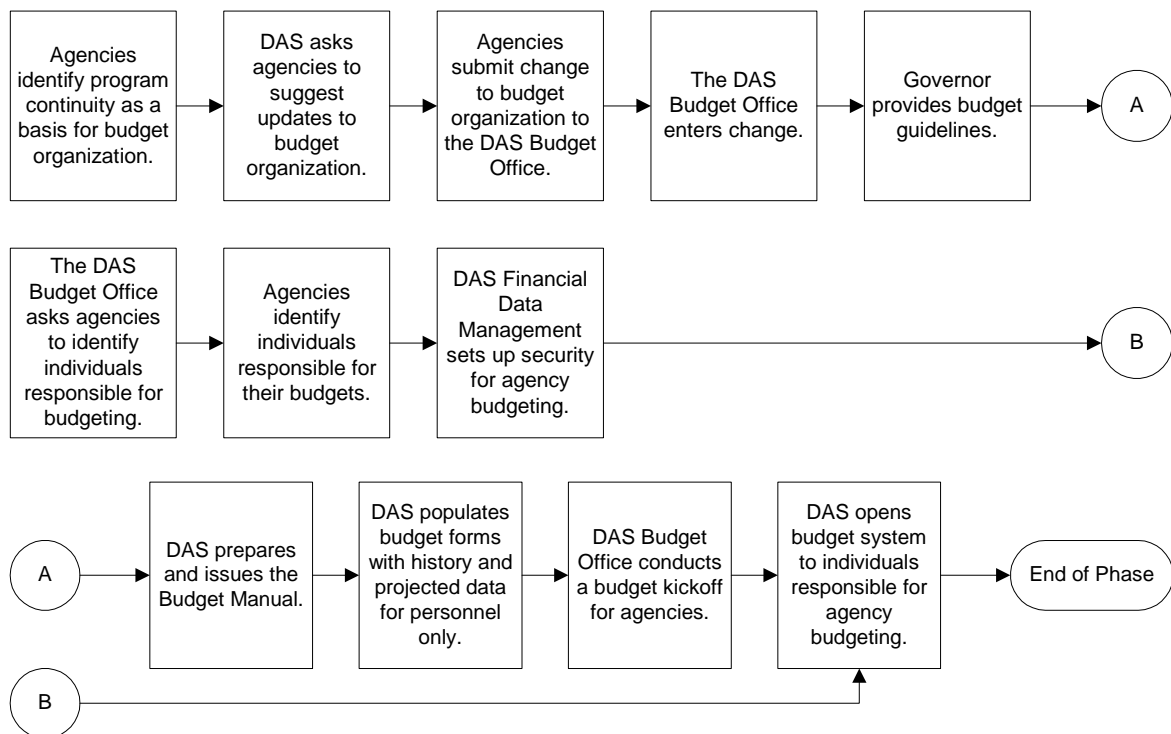


- Benefits computations should be automatic based on position and salary data. Alternately, an agency should have ability to budget based on the actual distribution of benefit plans selected by current employees.
- Allowing agencies to enter budget requests for overtime directly rather than having to go through the Budget Office Business Supervisor should be considered.
- A budget rollup of position counts in FTEs by funding source should be provided.
- Summary views of budget personnel information should be provided. From a summary view, a user should have ability to drill down to detailed information for a position.

2.1.2 Budget Planning

Budget planning involves establishing a budget structure, setting up security for agency budgeting, promulgating budget instructions and developing preliminary budget data. Preliminary budget data consists of actual expense for the previous year, current budget for the current year and projected personnel costs for the two years being budgeted.

A flow diagram for budget planning follows.



2.1.2.1 Business Rules

A list of business rules related to budget planning follows.

- Only one individual per agency is authorized to enter and update the agency budget request.



- The highest level in the data classification structure assigned by agencies is the Program Appropriation Unit (PAU).

2.1.2.2 Issues / Vision

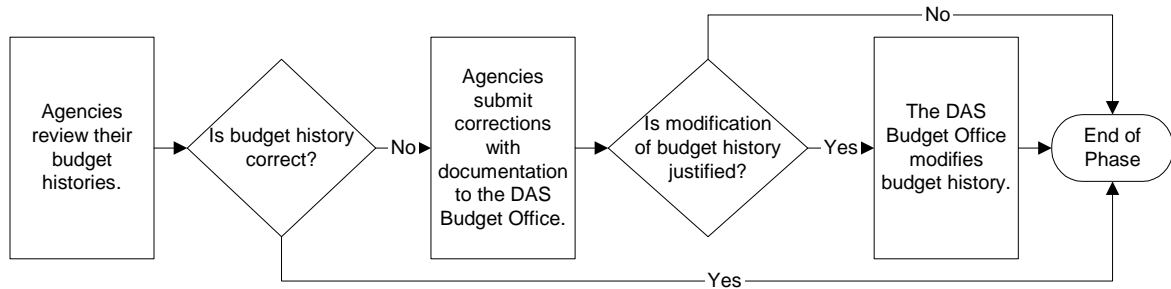
A list of limitations in the current system with vision for how they will be overcome in the new system follows.

- Different account coding structures are used for budgeting and accounting, which causes confusion. If feasible, use of the same structure for both budgeting and accounting is desirable.

2.1.3 Adjustment to Historical Budget Data

The correction process is intended to ensure that background information is accurate and up to date. If an agency is restructured, for example, correction involves depicting historical information using the new structure.

A flow diagram for correction of historical budget data follows.



2.1.3.1 Business Rules

Current business rules relating to correction of historical budget data that could affect system requirements follow.

- Actual data for the prior year is provided by Class and Object.
- Budget data for the current year is provided by Class but not Object.
- Personnel data for the two years to be budgeted is provided by position number and Class.
- Changes to historical data are proposed and justified by an agency but must be approved by a business supervisor in the DAS Budget Office.

2.1.3.2 Issues / Vision

Need to correct historical budget information stems from two sources:

- Rounding rules differ in accounting and budgeting; and
- Because budget data for the current year is prepared in advance, the most recent budget changes may not be included.

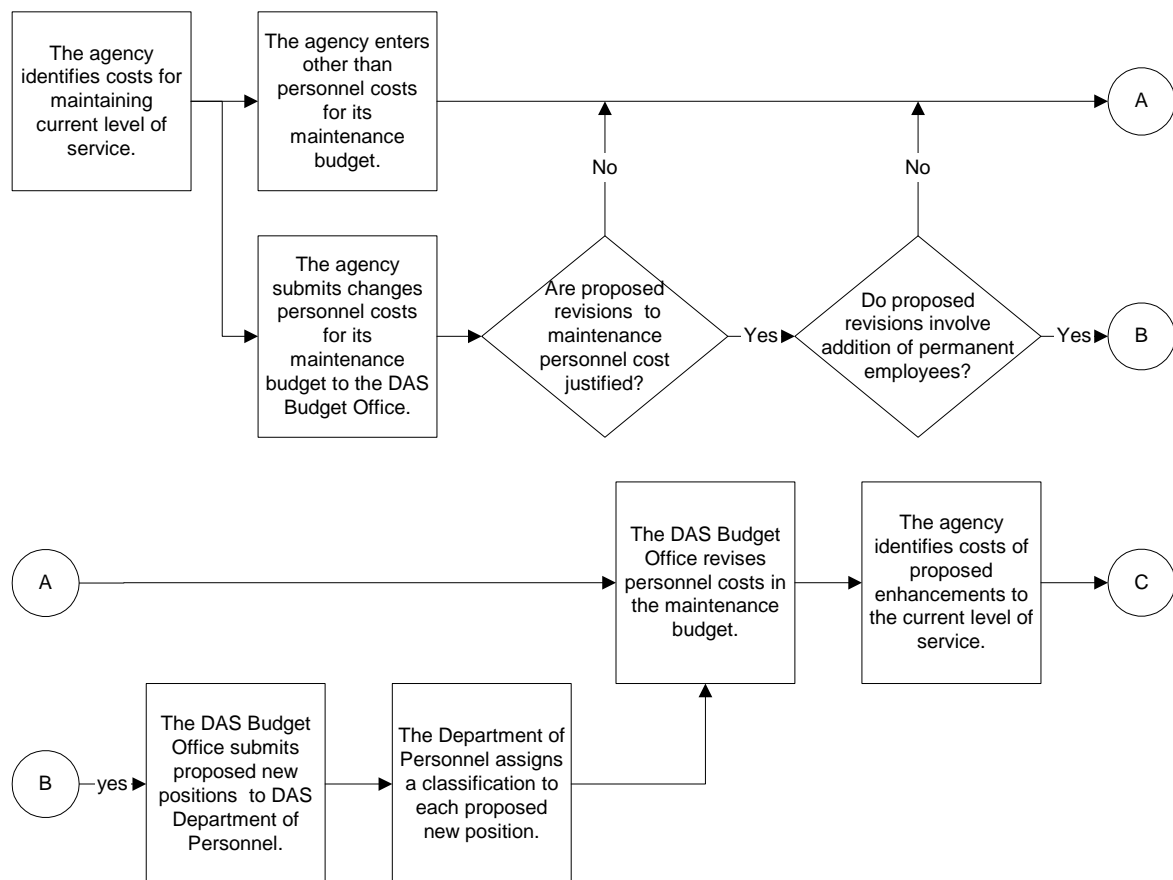


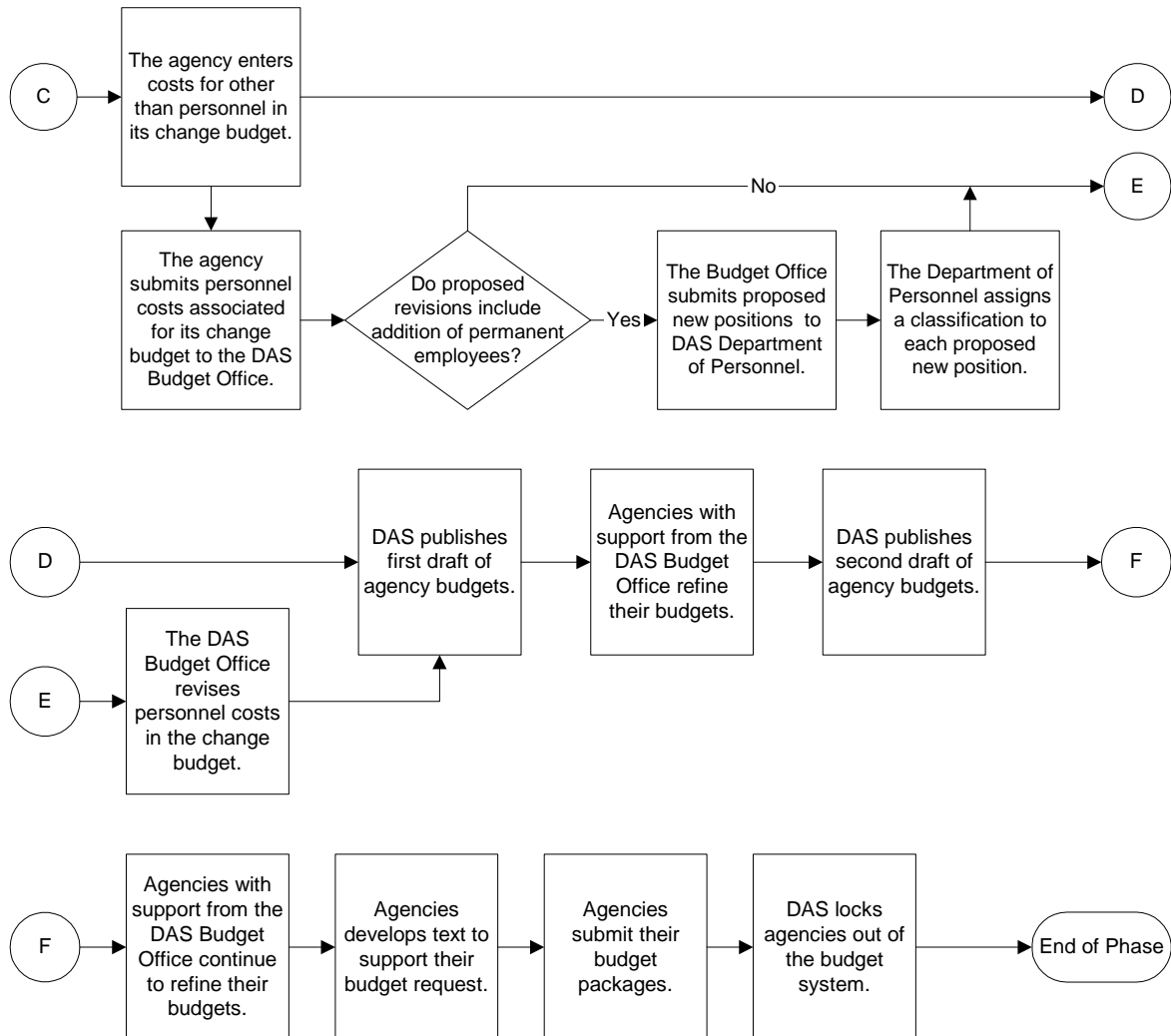
Integration of budgeting and accounting might eliminate this phase and, in the process, reduce workload significantly. The State's vision includes such integration.

2.1.4 Development of Agency Budgets

Agencies develop budgets in two components: a maintenance budget and a change budget. The maintenance budget is intended to depict funds required to continue the current level of service, while the change budget captures ideas for new programs and enhanced services. The actual definitions of maintenance and change budgets are set forth in the Governor's instructions.

A flow diagram for development of an agency budget follows.





2.1.4.1 Business Rules

Current business rules relating to development of agency budgets that could affect system requirements follow.

- Although maintenance of current level of service, as used for budgeting purposes, is defined by statute, the Governor may provide clarification consistent with statute.
- Agency budgets must be detailed to the level of Object Code or lower. Starting with the Governor's budget, detail ends at the Class level. Lower levels are required in agency budgets for:
 - ✓ Permanent, full-time positions, which must be budgeted individually; and
 - ✓ Equipment, which must be budgeted by commodity code.
- Changes to personnel data are proposed and justified by an agency but must be approved by a business supervisor in the DAS Budget Office.



- Human Resources must classify any proposed new permanent positions. A position created in the legislative phase of budgeting is an exception to this standard.

2.1.4.2 Issues / Vision

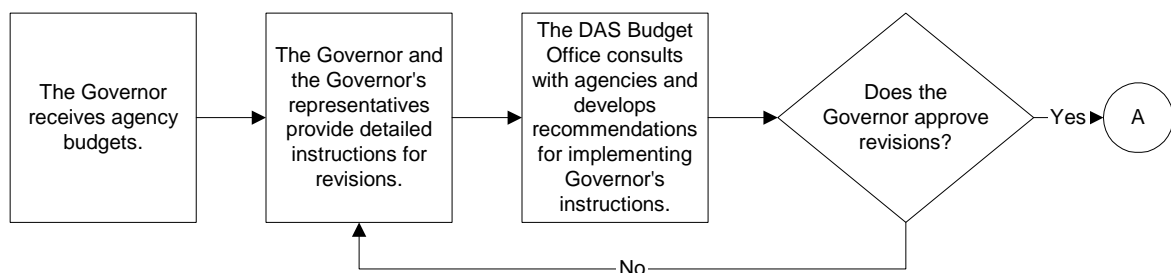
Issues related to the current system and/or criteria for a new system to support agency budgeting follow.

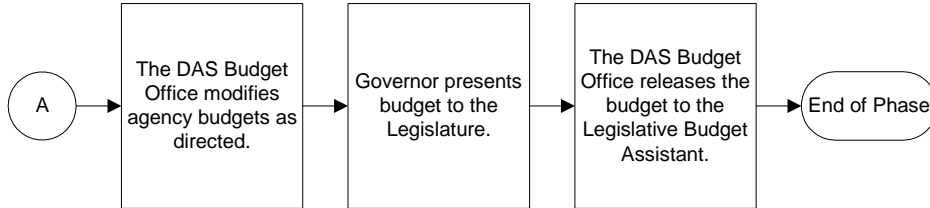
- An agency should have the ability of using its previous budget as a starting point for developing a new budget request.
- In the budget development process, ability to enter budget “drivers” and performance measures and model expenses would be useful.
- Although the current system is capable of tracking financing for positions, this feature is not used. Consequently, impact of changes to funding source is computed manually and entered. Consideration of benefits of maintaining data on funding source within the new system is needed.
- Transfers of positions from one PAU to another could be streamlined. Currently, the position is identified as “inactive” in source PAU and all information must be manually keyed in the destination PAU. A transfer feature in a menu could eliminate re-entry of data already in the system.
- The system should automatically include some equipment budget for each new position. The amount should vary by position type and be available for modification by the user. If the position is included or excluded from budget the related ancillary items should also be modified in like manner.
- After entry of detailed information, the new budgeting system should calculate any required summary information automatically. (This ability should carry through subsequent budgeting steps.)

2.1.5 Development of the Governor’s Budget

The Governor’s instructions for development of the Governor’s budget could differ from the Governor’s instructions for agency budgeting. Reasons for differences include increased information about the status of current revenue and a change in incumbent.

A flow diagram for development of the Governor’s Budget follows.





2.1.5.1 Business Rules

The Governor is not bound by information submitted by agencies. Consequently, business rules are not applicable.

2.1.5.2 Issues / Vision

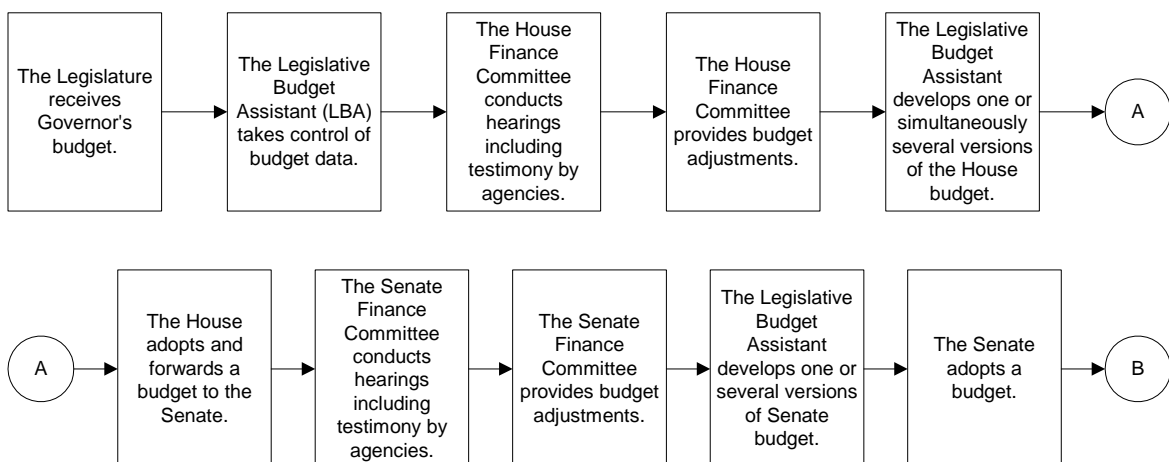
Issues related to development of the Governor's budget follow.

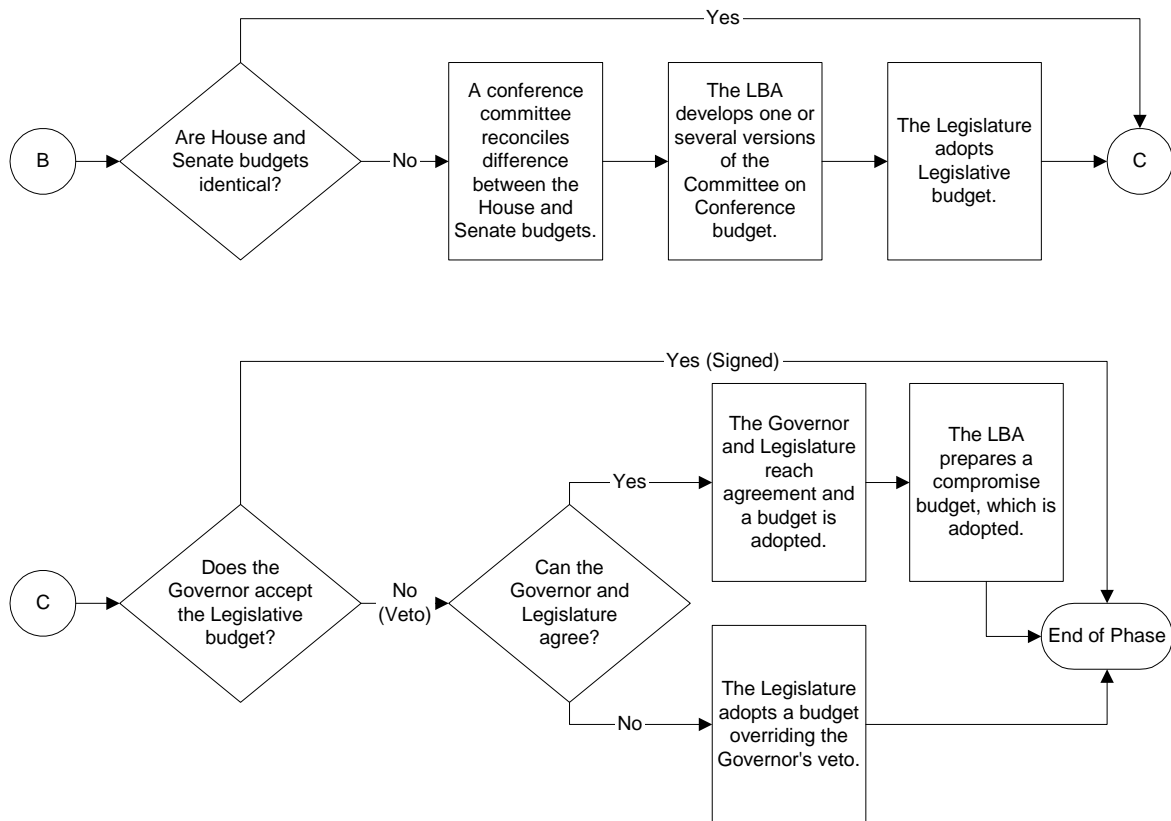
- In the change budget, project expenses detail budgets should be modular so that changes can be included (or excluded) automatically if the change is approved (or disapproved) for inclusion in the budget. The change priority number could be employed for this purpose.

2.1.6 Development and Adoption of the Legislative Budget

Detailed steps in development of the Legislative budget vary depending on the approach used. For example, in developing the most recent budget, Senate Finance Committee representatives participated in hearing conducted by the House Finance Committee. Another difference could occur if the Governor rejects the Legislative budget. In such a situation, the Legislature can either reach accommodation with the Governor or vote to override the Governor's veto. Because such differences do not affect system requirements, discussion of development of the Legislative budget addresses only typical steps.

A flow diagram for development of the Legislative budget follows.





In the event that the Governor and Legislature cannot agree in a timely fashion, a continuing resolution may be adopted to maintain government functions while an agreement is being negotiated. Alternative is not depicted because it is not usual and because impact on software selection is likely to be limited.

2.1.6.1 Business Rules

The Legislature is not bound by previous steps and is free to develop whatever type of budget it deems appropriate. Consequently, business rules do not apply.

2.1.6.2 Issues / Vision

Issues related to the current system and/or criteria for a new system to support development and adoption of the Legislative budget follow.

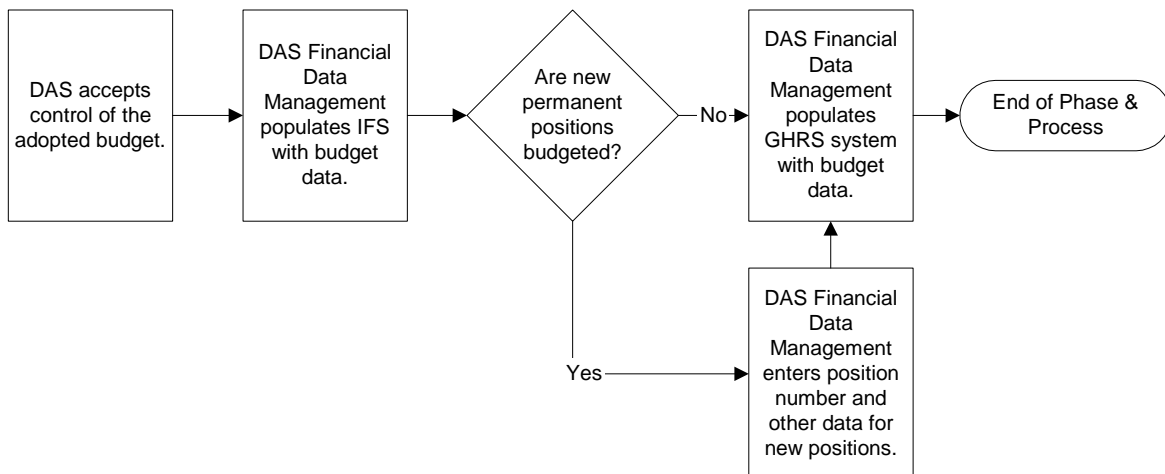
- The Legislative Budget Assistant must be able to maintain multiple active versions of each budget.
- When a component of the budget is approved, the Legislative Budget Assistant must be able to integrate the approved component into all active versions of the budget concurrently and with limited manual intervention.



- The Legislative Budget Assistant needs a robust but easy to use reporting tool. Types of reports that such a tool would provide include comparative reports and reports reflecting reorganization of the budget.

2.1.7 Implementation of the Budget

Adoption of the budget encompasses appropriation of funds. A flow diagram for adoption / implementation of the budget follow.



2.1.7.1 Business Rules

Business rules were identified for budget implementation follow.

- New positions must be entered in GHRs before budget data that includes new positions can be used to populate GHRs. A 7A Form is used to fund existing permanent part-time positions, and a 7D form is used to request new permanent full-time positions.

2.1.7.2 Issues / Vision

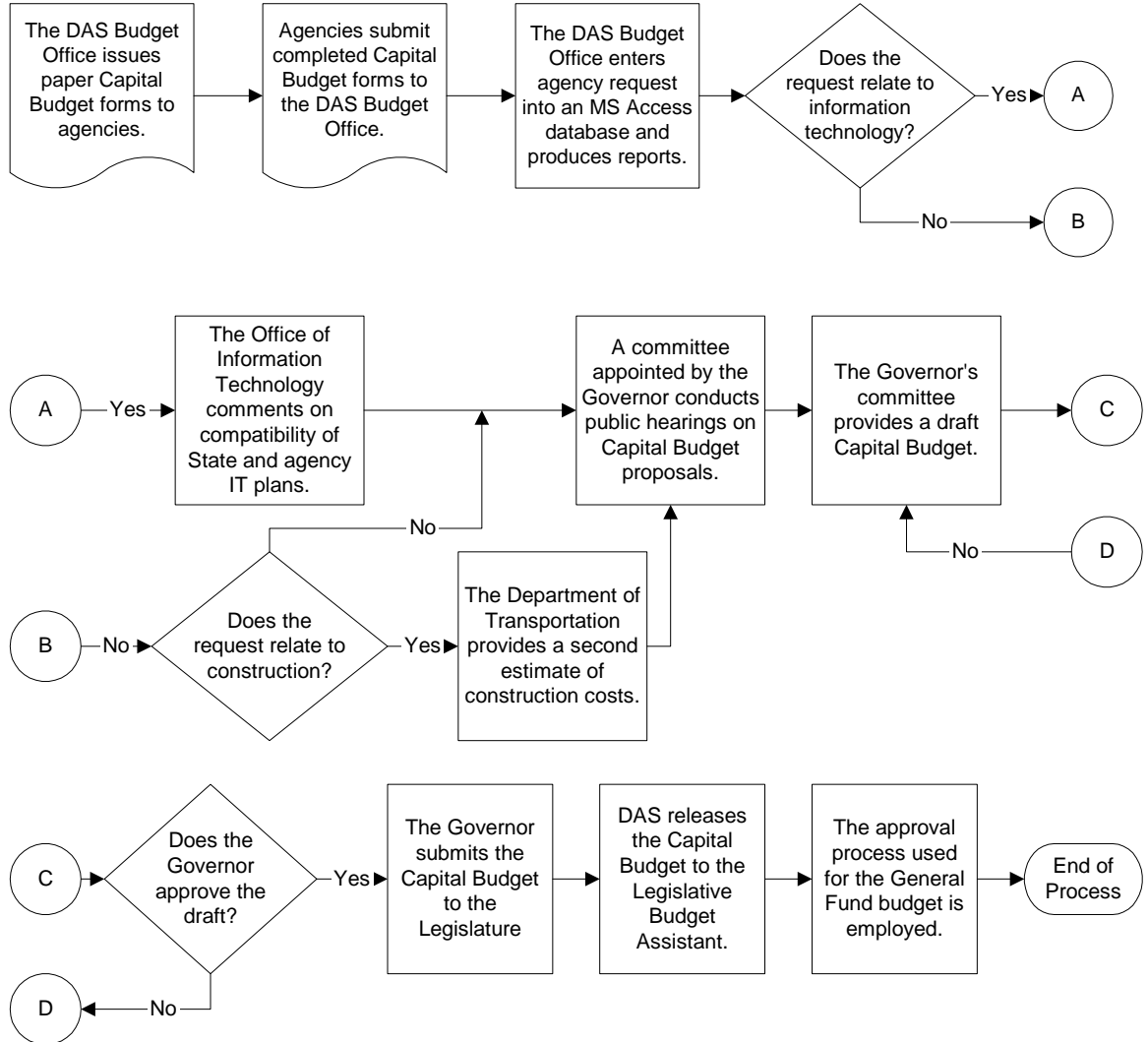
Issues related to the current system and/or criteria for a new system to implementation of the budget follow.

- Separate loading of the financial and human resources systems is needed because these two existing systems are independent. The State seeks a fully integrated ERP solution.

2.2 Capital Budget Development

The approval process for the Capital Budget is identical to that for the operating budget. To avoid redundancy, description covers only steps up to submission of the Capital Budget to the Legislative Budget Assistant.

A flow diagram for development of the Capital Budget follows.



2.2.1 Business Rules

Business rules related to development of the Capital Budget follow.

- Any request for Capitals for information technology is routed to the Office of Information Technology for comment prior to being considered by the Governor's committee.
- Any request for Capitals for construction is routed to the Department of Transportation for an independent cost estimate prior to being considered by the Governor's committee.

2.2.2 Issues / Vision

The Capital Budget is developed independently from the budget system. The State envisions integration of support for capital budgeting in its new system.



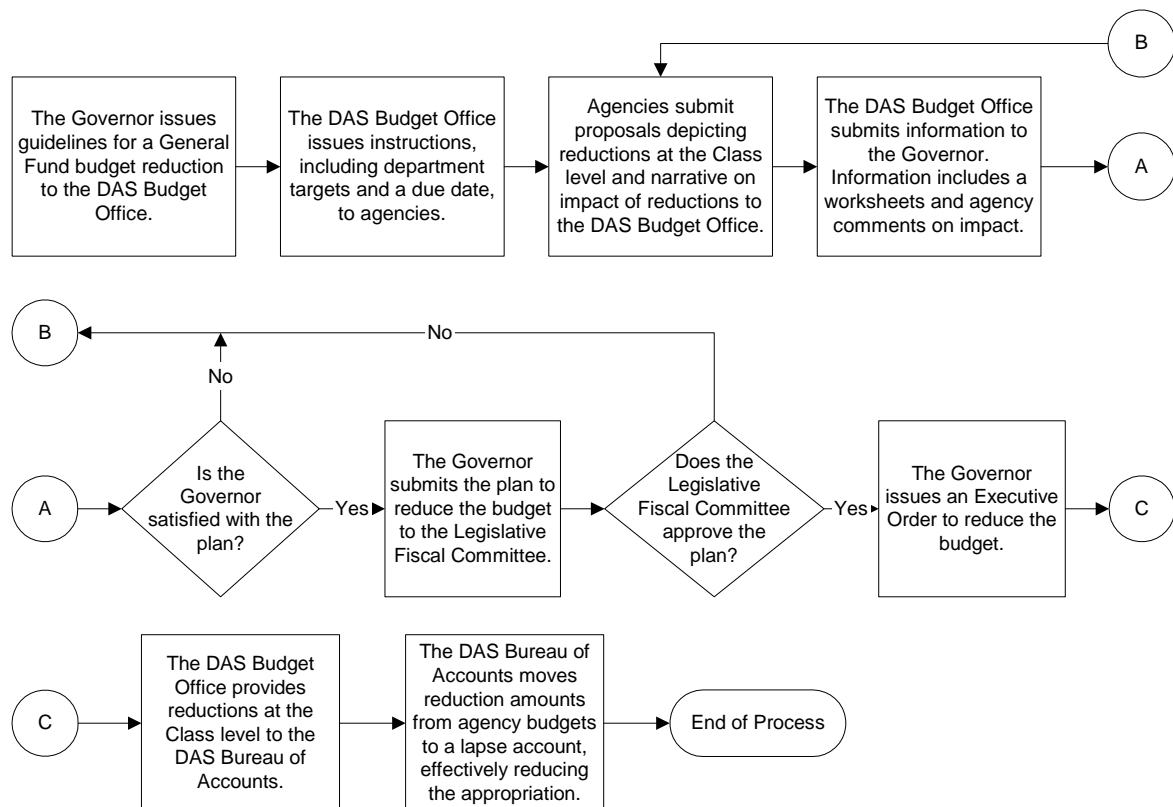
2.3 Budget Reduction

In time of need, New Hampshire uses one or more Executive Orders to reduce its operating budget. An Executive Order may mandate a percentage reduction or a freeze of selected types of expenditures. Often, the two types of Executive Order are concurrent. The freeze alternative leads to one additional process – consideration of waiver requests.

2.3.1 Executive Order for a Budget Reduction

An Executive Order for a reduction to the operating budget may exclude selected agencies or programs. The Governor mandates such exclusions in the initial step of the process. The Governor may establish a target as a percentage with specific exclusions, but the final Executive Order identifies reductions at the Class level in amounts.

A flow diagram for an Executive Order for a reduction to the operating budget follows.



2.3.1.1 Business Rules

No significant business rules likely to affect system requirements were identified for Executive Orders mandating a budget reduction.

2.3.1.2 Issues / Vision

A list of limitations in the current system with vision for how they will be overcome in the new system follows.

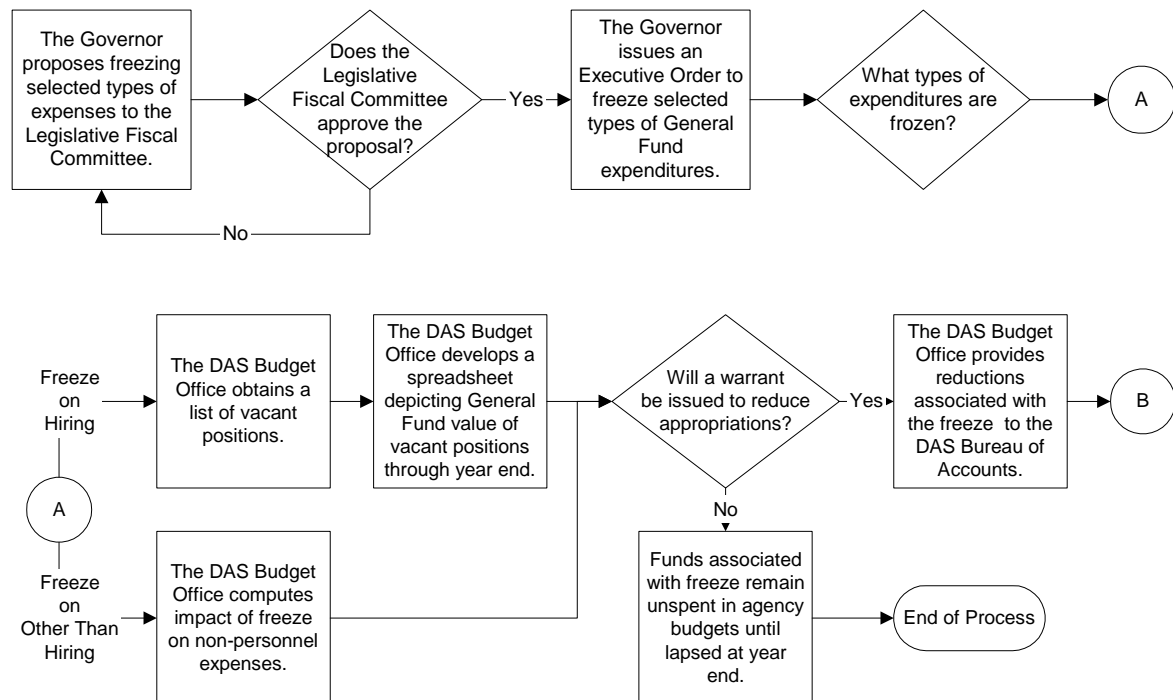


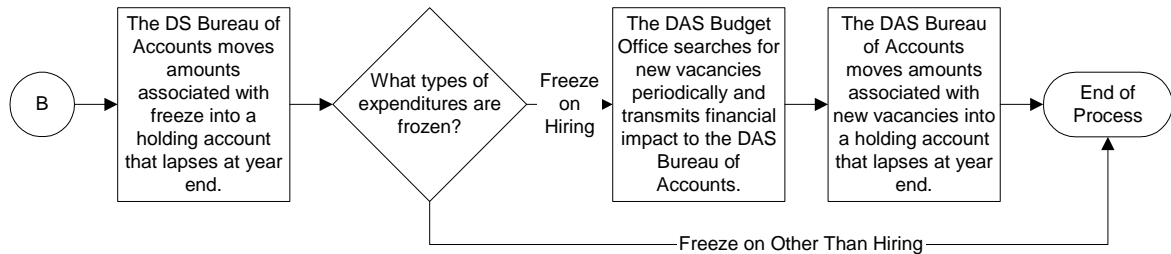
- Budget worksheets are prepared using MS Excel. The procedure is labor intensive. Automated support through an integrated budget system might reduce effort required. Such automated support should include ability to work concurrently in multiple scenarios.
- If the State elects to move reduction amounts out of agency budgets when an Executive Order for a budget reduction is issued, information in worksheets must be entered manually into IFS. Integration of budget and accounting functionality might eliminate this step.
- For budget reductions, ability to download into spreadsheets and later upload would be useful. Also, “what if” scenarios for are important for considering budget reductions.

2.3.2 *Executive Order to Freeze Selected Types of Expenditures*

In the past, expenditure freezes have affected vacant positions, equipment, out-of-state travel, consultants and information technology purchases. The process for a freeze differs from that for a percentage budget reduction in that the mechanics of analysis occur after issuance of the Executive Order.

A flow diagram for an Executive Order to freeze selected types of operating expenditures follows.





2.3.2.1 Business Rules

Business rules likely to affect system requirements related to an Executive Order mandating a freeze on selected types of expenditures follow.

- Some types of positions are typically excluded from a hiring freeze. Examples include positions in law enforcement, corrections and patient care.
- A vacant position is excluded from a hiring freeze if an offer of employment was issued prior to the freeze and if the individual offered the position accepts the offer.

2.3.2.2 Issues / Vision

A list of limitations in the current system with vision for how they will be overcome in the new system follows.

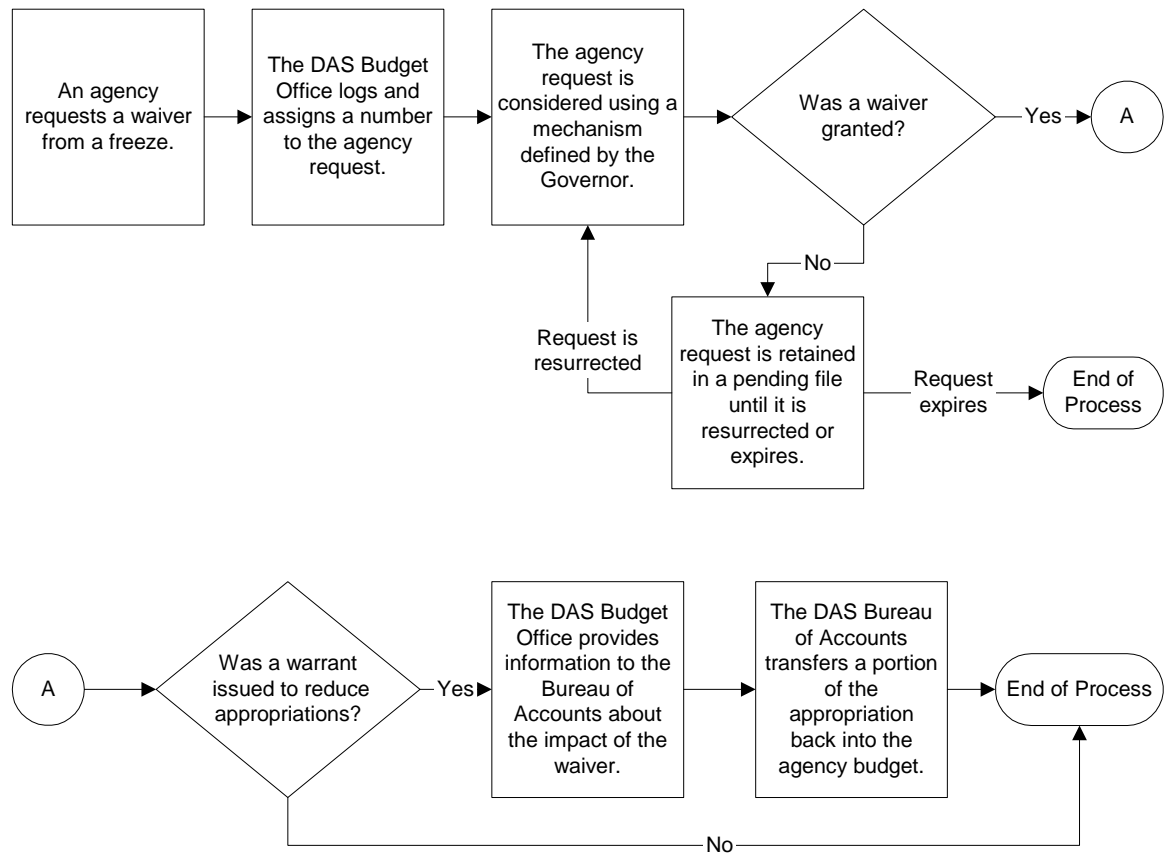
- When a hiring freeze is imposed, the DAS Budget Office obtains a list of open positions from GHRS, which is loaded into MS Excel. All remaining analysis is performed in Excel. Steps include:
 - ✓ Reviewing positions individually to determine whether they are exempt from the freeze;
 - ✓ Determining which positions have pending offers of employment;
 - ✓ Determining funding source for each open position impacted by a freeze; and
 - ✓ Computing impact on of the freeze for transmission to Accounting.
- Periodic checking for new vacancies involves obtaining a new GHRS list of vacant positions, manually manipulating the original spreadsheet to identify newly vacant positions and calculating impact.
- When an expenditure type not related to personnel is frozen, the freeze may relate to a specific expense class or may include components of multiple classes. In the latter case, business supervisors must review budget and accounting detail to identify impact of the freeze.

Much of the work involved in steps described is of a mechanical nature. The State would benefit from automated support for mechanical tasks.



2.3.3 Waiver of a Frozen Expenditure

The State recognizes that waivers of may be required when a type of operating expenditure is frozen. A flow diagram for addressing a waiver of a budget freeze follows.



2.3.3.1 Business Rules

Business rules related to waivers of a freeze on a category of expenditure that may affect system requirements follow.

- The Governor determines the exact process for consideration of a waiver request. In the past, business supervisors from the DAS Budget Office have presented recommendations to a committee appointed by the Governor that meets every second week.
- If a hiring freeze is in effect, the Division of Personnel must determine whether a vacant position can be filled before action on a request to recruit. This sometimes requires consultation with the Budget Office. Reasons that hiring could occur include:
 - ✓ The position is not funded or partially funded through the operating budget;
 - ✓ The position is exempt from the freeze; or
 - ✓ A waiver has been granted to authorize filling the position.

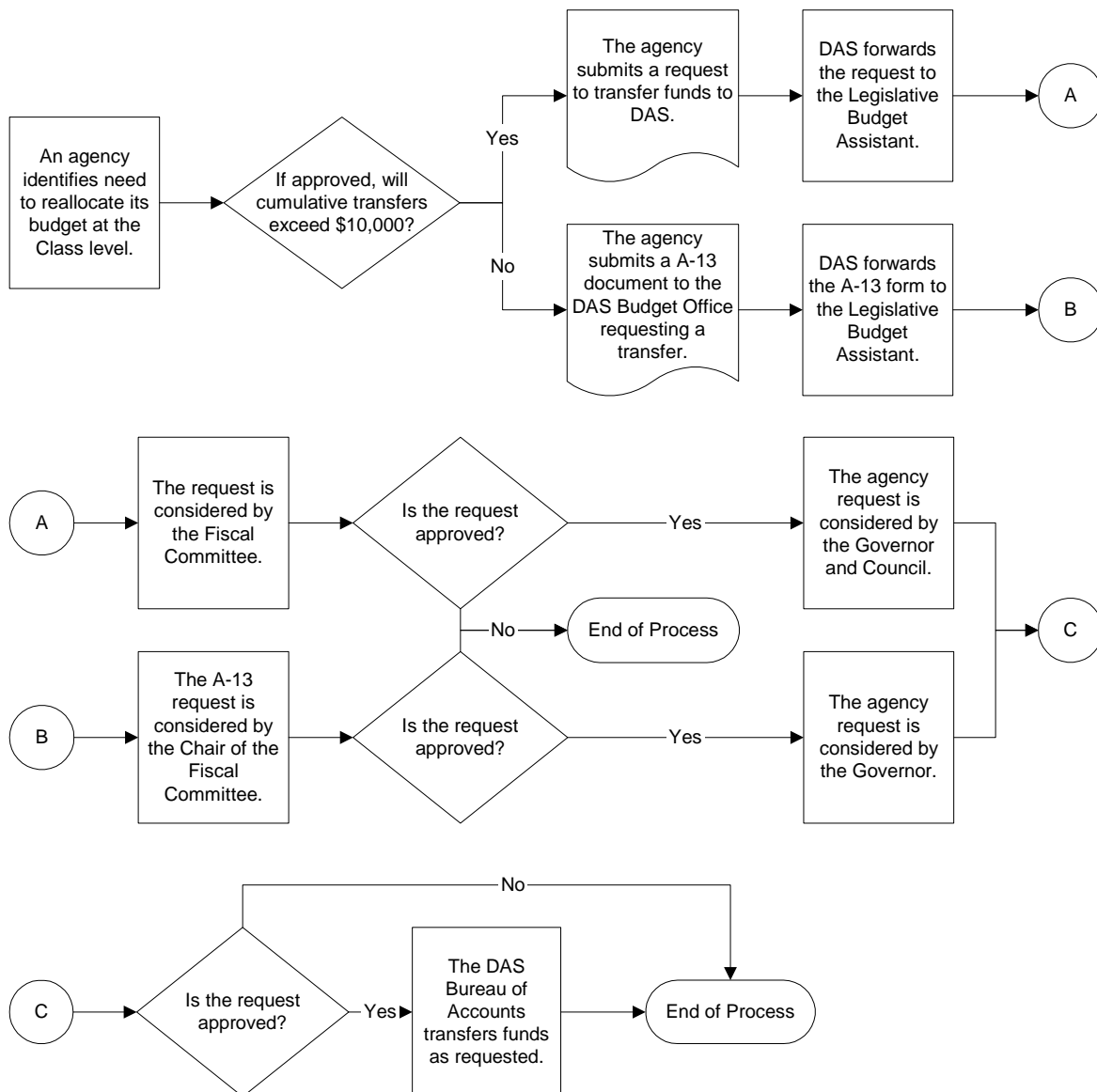


2.3.3.2 Issues / Vision

An integrated system would lessen the need for re-entry of information in the waiver process.

2.4 Budget Transfer

The budget transfer process is used to redistribute an appropriation without modifying total amount. A flow diagram for budget transfer process follows.



2.4.1 Business Rules

Business rules associated with the budget transfer follow.



- Ability to transfer funds is restricted by Class – with some Classes available for transfer and others not.
- An agency request to transfer funds must depict all detail of the request and must include rationale,
- If the cumulative total of agency transfers, including the current request, is less than \$10,000, the Chair of the Legislative Fiscal Committee may approve on behalf of the full Committee and the Governor alone may approve on behalf of Governor and Council. If the cumulative amount exceeds \$10,000, the full Fiscal Committee and Governor and Council must approve.

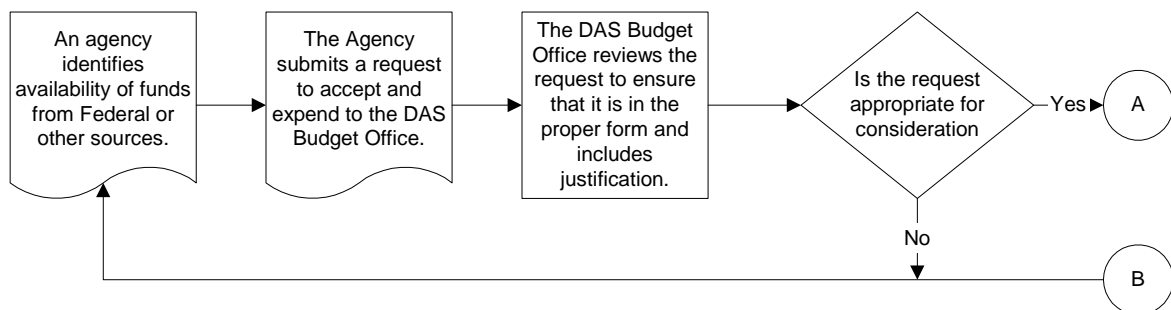
2.4.2 Issues / Vision

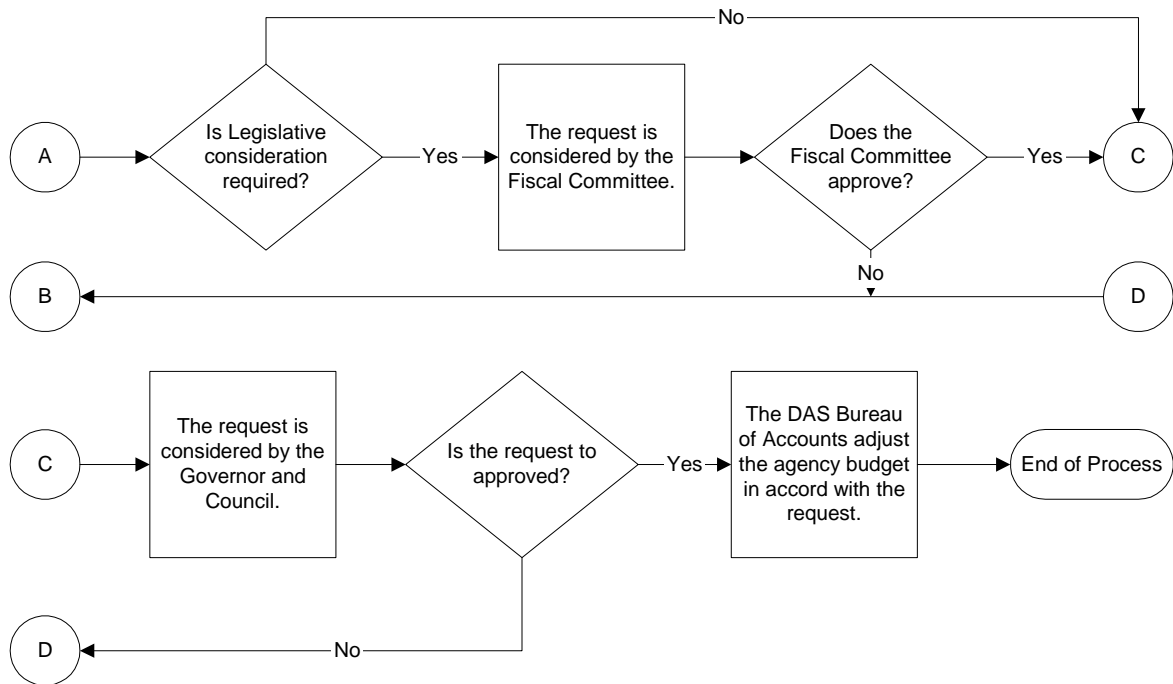
Issues related to the budget transfer process follow.

- Significant manual effort is currently required to track cumulative transfers by agency and to update the IFS system when a transfer is approved. The State desires to reduce manual effort by procuring and implementing an integrated ERP product.
- For transfer of appropriations, all work should be done in the new budgeting system, eliminating the need for production and copying of paper documents.

2.5 Authorization to Accept and Spend

When funding is available from an outside, usually Federal, source, an agency may seek authorization to accept and spend available outside funds. This process is often used to carry forward funds from outside sources into the new State fiscal year. A flow diagram for the accept and spend process follows.





2.5.1 Business Rules

Business rules related to the accept and spend process follow.

- An agency request to accept and spend outside funds must identify specific budget impact and must include rationale.
- Only selected types of requests to accept and spend are subject to oversight by the Legislature. These include any request that adds a permanent position and other types of request specifically identified by the Legislature. For example, the Legislature has mandated its oversight of requests to accept and spend submitted by the Department of Health and Human Services.

2.5.2 Issues / Vision

Issues identified related to the accept and spend process follow.

- For authorization to accept and spend, boilerplate templates should be provided for agency use in the system.
- The full Governor and Council process for authorization to accept and spend sometimes takes so long that spending funds between approval and end date of the grant can be difficult. Reconsideration of standards should be considered

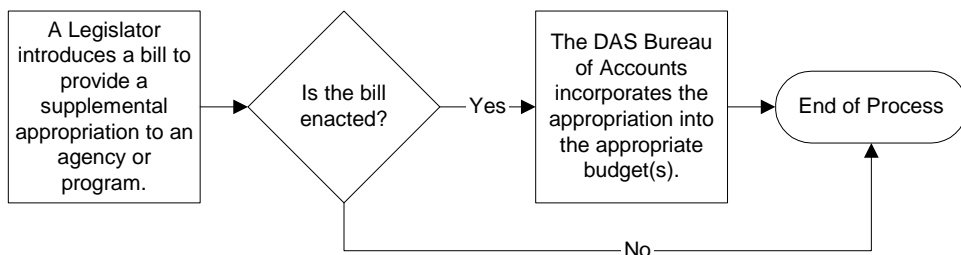
Other issues related to this process are addressed in the section of this report devoted to Grants and Projects.



2.6 Supplemental Appropriation

A supplemental appropriation must be initiated through the legislative process or through the legislative Fiscal Committee (for emergency appropriations). Supplemental appropriations are unusual.

A flow diagram for the supplemental appropriation process follows.



2.6.1 Business Rules

The legislative process is not constrained by business rules.

2.6.2 Issues / Vision

Issues identified for the supplemental appropriation process follow.

- Provision to amend budgets to reflect pay increases is needed. At a minimum, this topic should be addressed through management reporting. Funding mix should also be considered.
- A more precise method to calculate a COLA (Cost of Living Adjustment) is needed. The current method is imprecise and difficult. A COLA for 2 percent has resulted in a budget increase for salaries of slightly less than 2 percent. Budget actions are in rounded dollars and that the Bureau of Accounting can only allocate the actual amount authorized.

2.7 Miscellaneous

2.7.1 General Issues

Several general issues related to the budgeting process were identified. A list follows.

- The new system should facilitate development and analysis of “what if” budget scenarios at all levels, including the agency level.
- The new system should provide ability to include text, graphics and spreadsheets in budget information. For example, a note feature to explain apparent anomalies in budget data should be provided.
- A user should be able to multi-task – perform different processes concurrently. This would entail simultaneous use of several windows. Cut and paste functionality is also needed.



- Complexity is an important consideration in planning budgeting functionality. Increasing complexity is likely to make the system more difficult to use.
- Be cautious about use of parameters. Several years ago, a parameter that limited federal participation in funding positions had an unexpected impact on the General Fund.
- Some way to address differences between the State and Federal fiscal year is needed in budgeting for grants and projects. When grants are budgeted by federal fiscal year, the system should be capable of converting to State fiscal year automatically. Further, the new system needs to support budgeting for grants and projects that begin and end in every month.
- Controls are needed to ensure internal consistency of budget data entered. Controls should include:
 - ✓ Automatic updating of associated information when one code is modified,
 - ✓ Limiting lists of codes for selection based on compatibility with previous selections, and
 - ✓ Checks of consistency before data is accepted.
- As the budgeting process progresses, payroll information becomes increasing dated. Legislators want to see up-to-date adjusted actual data in budgets.
- Robust ad hoc reporting capability is important for budgeting, particularly for personnel expenses.
- Agencies budget at the object level, but subsequent budgeting steps are performed at higher levels. The level required should be consistent throughout the process.
- The data classification structure used should be consistent for accounting and budgeting.
- Users need ability to download budget information into Microsoft Excel for analysis.
- Users need ability to compute impact of a change to the expense budget on Federal or statutory requirements. Examples follow.
 - ✓ Links to enable analysis of impact on Federal funding resulting from modification of the State's operating budget would save significant manual effort. Needed links include Class 42 to full-time salaries or the combination of the two to Class 60.
 - ✓ Boards are required to budget revenue at 125% of expense. Ability to see the impact of an expense change on revenue required and vice versa would be useful.
- The system should provide ability to send components of the budget electronically, for example, to legislators.



- The new system should address rounding issues to prevent errors. Rounding to hundreds or thousands should be considered.
- Agency name should appear on every report and every screen to prevent confusion.
- Source of funds in budget information is currently separated into General Fund, Federal Funds and Other. The “Federal” and “Other” categories should be broken down into a greater level of detail. This could be achieved through ability to drill down on the “Other” category.
- Flexibility is needed in codes for rent (Class 28 and Class 49).
- An indicator in the budget system of source of funds perhaps in a worksheet would be useful.
- Electronic signatures should be employed to reduce the need for paper documents.

2.7.2 Referrals

Some significant issues arose in discussion of budgeting functionality that might be better addressed in relation to other components of an ERP – particularly the human resources component. A list follows.

- An error or warning message is needed when an employee is paid from other than the source identified in the budget. Prevention of unintended changes in funding source would reduce corrections significantly.